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UNCLAS SECTION 01 OF 03 LAGOS 002470

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STATE FOR EB/ESC/IEC/ENR/BLEVINE
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STATE PASS DOE FOR DAS JBRODMAN AND CGAY
STATE PASS TREASURY FOR ASEVERENS AND SRENANDER
STATE PASS DOC PHUEPER
STATE PASS TRANSPORTATION MARAD
STATE PASS EX-IM FOR JRICHTER
STATE PASS OPIC FOR CDUFFY
STATE PASS TDA FOR BTERNET

E.O. 12958: N/A
TAGS: EPET EINV NI ENERG
SUBJECT: Brass LNG Project Overview

Summary

¶1. (SBU) This cable provides an overview of a major new liquefied natural gas (LNG) project in Nigeria. ..Brass LNG is planned as a world class, greenfield facility to be located in Brass, Bayelsa State. Brass LNG will be a two-train facility for liquefaction and shipping, with an initial production capacity of 10 million tons LNG, 2.4 million LPG, and 0.2 million tons condensate annually. Brass LNG shareholders include the Nigerian National Petroleum Corporation (NNPC), Chevron Texaco, ConocoPhillips, and ENI International. The Final Investment Decision for Brass LNG is projected for mid-2006. Proposed downstream gas legislation and new gas fiscal terms could significantly impact the financial viability of the Brass project. End summary.

Project Overview

¶2. (U) Brass Liquefied Natural Gas is planned as a world class, greenfield LNG facility to be located in Brass, Bayelsa State. Brass LNG Limited incorporated in Nigeria on December 9, 2003. The site will include a two-train facility for liquefaction, and shipping facilities. Brass LNG's products will include 10 million metric tons of LNG, 2.4 million metric tons of LPG, and 0.2 million metric tons of condensate per annum.

Capital Structure and Financial Details

¶3. (U) Shareholders for the Brass LNG plant include the Nigerian National Petroleum Corporation (NNPC) with a 49 percent stake, and Chevron Texaco, ConocoPhillips, and ENI International, each with a 17 percent stake. The notional budget for Brass LNG is about $3 billion, but more precise figures await completion of the Front End Engineering Design.

¶4. (SBU) Additional investment for a possible expansion of Brass LNG might bring the total investment as high as $10 billion. Brass management does not endorse press reports of projected income of $10 billion annually for the project.

Nigeria's Drive to End Gas Flaring

¶5. (U) Nigeria was chosen as the proposed site for the LNG plant due to its abundant supplies of natural gas (estimated at more than 170 to 180 trillion cubic feet, the seventh largest in the world), and because of the GON's campaign to end gas flaring by 2008. Natural gas projects such as Brass will play a significant role in developing an export market for gas that might otherwise be flared.

Proposed Brass Facilities

¶6. (U) The conceptual design for Brass LNG involves locating an LNG processing facility on-shore, next to the existing Nigerian AGIP Oil Company (NAOC, the joint venture between parastatal NNPC and Italian ENI) oil terminal on Brass Island, Bayelsa State. The waters off of Brass Island are quite shallow, so berthing ships is problematic. The proposed solution involves a 6-kilometer long trestle, with a jetty for LNG and LPG ships, turning basin and breakwater,

and a 9-kilometer dredged channel to allow ships to approach.

Gas Sourcing

¶7. (U) Once operations are underway, the various shareholders will each contribute approximately 850 million cubic feet/day of gas as feedstock from their existing fields.

Project Milestones: FEED Contract Recently Signed
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¶8. (U) A number of significant project milestones have taken place. Shareholders signed the Heads of Agreement (HOA) for Brass LNG in October 2003. Brass LNG awarded the contract for the Front End Engineering Design (FEED) of the facility to Overseas Bechtel Incorporated on 10 November ¶2004. Completion of the FEED is expected within 12 months, and includes provisions for a subsidiary of NNPC, the National Engineering and Technical Company Limited, to participate in the contract. The project will then move to the Engineering, Procurement, and Construction phase, expected to begin in the third quarter of 2006. The project is planned for completion by the second half of 2009.

End Market

¶9. (SBU) According to Martin Hutchison, Managing Director for Brass LNG, the facility's first LNG sales will likely be to the U.S., but consideration will also be given to the EU. Domestic sales are not currently planned, given the existence of price regulation in Nigeria's downstream market.

Final Investment Decision

¶10. (SBU) The Final Investment Decision (FID) for Brass LNG is expected in mid 2006. According to MD Hutchison, steps to the FID include satisfactory conclusions on a range of issues, including:

--Completion of the FEED and resolution of all technical issues
--Competitive EPC environment
--Community and other stakeholder engagement
--Environmental considerations
--Satisfactory security arrangements
--Price and timing with respect to market entry
--Impact of new legislation

Policy Considerations

¶11. (SBU) Proposed GON downstream gas legislation and new gas fiscal terms could significantly impact the Brass project. The Brass management team is carefully watching the evolution of these policies and conducting economic analysis to determine the impact of current and proposed fiscal terms on the project's viability.

Comment

¶12. (SBU) There is a growing call in Nigeria for revival of the domestic gas market, particularly the domestic LPG for cooking. Nigeria, despite its immense gas reserves, has the lowest per capita gas consumption in West Africa. The domestic LPG market collapsed a few years ago, largely due to the imposition of a number of tariffs and taxes on imported LPG, including a 30 per cent import duty, 7 per cent port surcharge, and 5 per cent value added tax. Additionally, the country lacks a backbone gas pipeline system for domestic distribution, so LNG cannot easily be harnessed for power generation. International investors have not been willing to consider investments in the domestic gas sector, as prices remain regulated and below international levels. MD Hutchison frequently speaks on the need for realistic price signals in the Nigerian gas market before international investors will be tempted to invest in this area. Unfortunately, as new export gas projects are approved and move ahead, the tension within country over the lack of gas for domestic use becomes ever more acute.